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SUBJECT: FRANCE: ENERGY SECTOR UPDATE

Sensitive but unclassified - Contains company proprietary information.

¶1. (U) This is the first in a series of occasional updates on the French energy sector. Feedback is welcome to help us make this product as useful as possible for our Washington inter-agency audience.

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¶2. (U) EDF brokers deal to control Italian power company: The state-owned French power company Electricite de France (EDF) will pay seven billion euros to resolve investment disputes in Italy in a deal that would give EDF a 50% stake in Edison, Italy's second-largest electricity producer. Although the deal values Edison at only 7.5 billion euros, EDF had faced debt and equity obligations of up to 13 billion euros as a result of a complex series of put and call options. Assuming the deal is approved by European competition authorities, it would help clarify EDF's murky balance sheet and thus help pave the way for the planned privatization of up to 30% of EDF later this year by resolving a four-year impasse over EDF's liabilities in Italy. Uncertainties remain, including the abolition of certain Italian limitations on foreign shareholder voting rights. If these are not lifted by May 27, EDF may pull out of the deal.

¶3. (U) Industry Minister pushes EDF to sell electricity transmission company: According to French business daily La Tribune, GOF Industry Minister Patrick Devedjian said that he would like to see 50% of the shares in RTE (Reseau de Transport d'Electricite) sold to the public sector bank CDC (Caisse des Depots et Consignations). In effect, this would not be a privatization, but rather a transfer from one GOF institution to another. However, it would satisfy an important requirement of the European Commission and the new French energy sector reform law (04 Paris 6157) that EDF fully separate electricity transmission from production, so that independent power producers have unfettered access to the national transmission grid. Currently, EDF still owns 100% of RTE, although French energy regulator CRE (Commission de Regulation de l'Energie) requires a certain level of bureaucratic separation between the two entities. Estimates put the total value of RTE at approximately four billion euros. The two billion euros that EDF would get from the sale could help to finance EDF's takeover of Edison, which otherwise might throw EDF deeper into debt. However, Devedjian denied a link between EDF's RTE stock sale and Edison purchase.

¶4. (U) SEC inquiry about Iran raised at Total shareholder meeting: Total Chairman Thierry Desmarest said that the French oil company will respond to an inquiry from the U.S. Securities and Exchange Commission for details about its operations in Iran "as long as this doesn't raise problems with the limits of sovereignty." Desmarest's remarks are likely a sign that Total may set limits to what it will disclose about its business in Iran, because Total deems that a U.S. embargo on Iran doesn't extend to French corporations. "We aim to have a fruitful

cooperation with the SEC," Desmarest said at an annual shareholders' meeting on May 17. Total first disclosed it had received a request from the SEC for information on its operations in Iran in a legal filing posted on the regulator's Web site in mid-April. According to Dow Jones Newswires, the SEC wants to know whether Total and other oil companies doing business in Iran have paid "commissions" to intermediaries to secure contracts in the country.

15. (SBU) U.S. Energy Secretary meets French counterpart: On May 3, Energy Secretary Bodman met with GOF Industry Ministry Patrick Devedjian on the margins of the OECD/IEA Ministerial in Paris. The brief encounter served as a good introductory meeting between the two officials. Devedjian said that the nuclear energy policies of our two countries were "very much in harmony" and he was pleased that the reprocessing of U.S. weapons-grade plutonium in France (the "Eurofab" project) had gone smoothly. It wasn't often, he noted, that France is in a position to offer technological lessons to the United States. Bodman thanked Devedjian for France's hospitality as host of the OECD and IEA Ministerial meetings. Noting the lack of focus or measurable goals, Bodman expressed interest in goal-setting for future IEA Ministerials.

16. (U) Former GDF directors create Altergaz: Three former directors of natural gas group Gaz de France (GDF) have created Altergaz, the first independent natural gas provider on the French market. The new company plans to complete a private share placement for 15 million euros at the end of May, and will then carry out a stock market listing. Altergaz has already signed a contract with Italian energy group Eni for supplies of natural gas from the North Sea. The company is targeting the French business market, which is worth 4.5 billion euros and remains dominated by GDF. Altergaz will begin its first deliveries of gas on October 1, 2005.

17. (U) Total negotiates end to strikes at French oil refineries: Total, the French oil group, bowed to political pressure and ended a week-long strike at its domestic refineries, which led to some local gas shortages. The company said staff in its six French refineries returned to work on May 23 after it agreed to give them an extra day off to make up for working on Pentecost, or Whit Monday, which was scrapped as an official public holiday by the GOF this year. Pressure reportedly came from French Prime Minister Jean-Pierre Raffarin, who was keen to avoid embarrassing gas shortages only a few days before the May 29 referendum on the European constitution.

18. (U) Areva hopes to build nuclear reactors in the U.S.: On May 19, French daily La Croix reported that French nuclear power company Areva (ref 04 Paris 8615), through its potential U.S. customer Constellation Energy, had submitted a license application for the European Pressurized Reactor (EPR) to the U.S. Nuclear Regulatory Commission. In an article entitled "Areva eyes the American market," the paper noted that Areva hopes to win contracts to build the EPR in the U.S. However, Areva and the French press seem to be engaging in wishful thinking. Westinghouse already has a license for its AP1000 (the EPR's closest competitor) and the NRC review for an EPR license is expected to take up to two years. So, for the time being, Westinghouse has a distinct advantage in the U.S. market. In the meantime, Areva will continue to grow its already lucrative business in the U.S., repairing and maintaining the aging fleet of existing U.S. nuclear reactors, rather than selling new nuclear reactors. In the near-term, the Chinese market is where the Areva EPR versus Westinghouse AP1000 competition battle will be fought. The Chinese plan to announce their choice this autumn for an eight billion dollar contract to build four nuclear reactors -- a contract that will likely lead to more orders in China's rapidly growing energy market.

19. (SBU) U.S. Energy Secretary discusses nuclear energy issues with Areva CEO: Secretary Bodman also met with Areva CEO Anne Lauvergeon during his May 3 visit to Paris for the IEA Ministerial. It was the first time the two had met and served as an opportunity for the Secretary to hear European industry views on U.S. energy policy. (Details about Areva, a very large and vertically-integrated nuclear energy services company, can be found in 04 Paris 8615 and 05 Paris 2764.) Lauvergeon emphasized the importance of U.S. policy and its impact on nuclear power in Europe. She expressed her pleasure with President Bush's latest speech on energy policy because it emphasized the importance of nuclear energy as part of the energy mix. Secretary Bodman said that the President feels very strongly about it because it's the right thing for the country. Lauvergeon said that the

2010 program is significant because it helps with siting and licensing a new plant. However, industry is still looking for insurance on the back-end of the fuel cycle to ensure the production of nuclear energy is economically desirable. Secretary Bodman explained that Yucca Mountain is a problem because the State of Nevada is doing everything possible to prohibit its construction and a recent court case has caused delays in the schedule. He added that by the time the Yucca Mountain site is ready to take in nuclear waste, it would almost immediately be filled to capacity due to the backlog. Lauvergeon offered her company's assistance to DOE in the treatment of spent fuel. Secretary Bodman advised her to work with Deputy Secretary of Energy Clay Sell who is in charge of developing a more thorough strategy of dealing with the nuclear waste issue.

¶10. (SBU) Areva lobbies (again) for U.S. support in China: Echoing our earlier meetings with Areva officials (ref Paris 2764), Areva CEO Lauvergeon recently told U.S. Energy Secretary Bodman that Areva now has 7,000 employees in the U.S. and that if they are successful in their bid to build reactors in China, there will be direct benefits to the United States in the form of jobs and income. Secretary Bodman pressed her on this and she said that if Areva were successful the U.S. would receive about 200 to 300 million dollars out of a two billion dollar contract to AREVA. Lauvergeon also said that the reactor design is a good one for the U.S. She asserted that, in terms of employment, Areva employs more people in the U.S. than Westinghouse.

Wolff